HB11-1288

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 11-0848	**Date:**	March 30, 2011
Prime Sponsor(s):	Rep. Liston; Pabon Sen. Morse	**Bill Status:**	House Economic and Business Development
		Fiscal Analyst:	Clare Pramuk (303-866-2677)

TITLE: CONCERNING UNEMPLOYMENT INSURANCE SOLVENCY REFORM, AND, IN CONNECTION THEREWITH, ENACTING MEASURES TO ENHANCE THE SOLVENCY OF THE UNEMPLOYMENT COMPENSATION FUND.

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013	FY 2013-2014
State Revenue* Cash Funds Unemployment Compensation Fund	$68,037,000	$27,137,000	$202,818,000
State Expenditures Cash Funds Employment Support Fund	$62,900		
FTE Position Change			
Effective Date: July 1, 2011.			
Appropriation Summary for FY 2011-2012: See State Appropriations section.			
Local Government Impact: None.			

**Note:* *Revenue estimates are based on the March 2011 Legislative Council Staff forecast.*

Summary of Legislation

This bill changes the way the unemployment insurance (UI) system is financed. The first change to the funding mechanism occurs January 1, 2012, when the chargeable wage base is increased from the first $10,000 paid to an employee to the first $11,000. When the fund balance of the Unemployment Compensation Fund (UCF), commonly referred to as the UI Trust Fund, on any June 30 is equal to or greater than zero dollars, and all advances from the federal government have been repaid, the bill repeals current financing methods and implements the following changes:

- indexes the chargeable wage base annually to the percentage change in average weekly earnings;
- consolidates two of the three assessments (base premium and socialized surcharge) and part of the third (solvency surcharge) into one combined premium and new solvency surcharge;
- creates a new set of premium surcharge rate tables and compressed employer experience ratings; and
- establishes a premium credit for employers with a positive experience history when the UCF balance is above 1.6 percent of total wages.

The bill also makes changes to the administration and monitoring of the UI program. By August 31, 2012, and annually thereafter, the Colorado Department of Labor and Employment (CDLE) is required to provide annual reports to the General Assembly on the status of the UCF, including fund revenue and expenditures, the effectiveness of the funding mechanism, analyses of the impact of total premiums assessed and measures taken to reduce overpayments and fraudulent payments. The bill authorizes the Director of the Division of Employment and Training to enter into agreements with other states to exchange information as a method of controlling the overpayment of unemployment benefits.

By January 1, 2013, the CDLE must develop an on-line computer application that allows employers to review and manage their account information. Finally, the bill clarifies provisions relating to fraud and overpayments to claimants and requires notice to claimants of penalties for fraud and overpayments.

Background

The UI program provides temporary and partial wage replacement to workers who have become unemployed through no fault of their own. The program is administered by the Unemployment Compensation Section in the Division of Employment and Training within the CDLE. House Bill 09-1363 established the section as an enterprise. As a result, most of the revenue collected for UI is not subject to the TABOR limit.

UI benefits for the first 26 weeks of unemployment are paid from the UCF, which is funded through state UI premiums and surcharges, and federal UI taxes paid by Colorado employers. The UCF became insolvent in January 2010 and is expected to remain insolvent for several years due to sustained levels of high unemployment as a result of the 2007-2009 recession. To continue to meet UI benefit payment obligations, the state began borrowing from the federal Unemployment Trust Fund in mid-January 2010, and is expected to continue to borrow until state revenue sources can support UCF solvency. To fund the UI program, CDLE charges employers the following assessments on the first $10,000 paid to an employee:

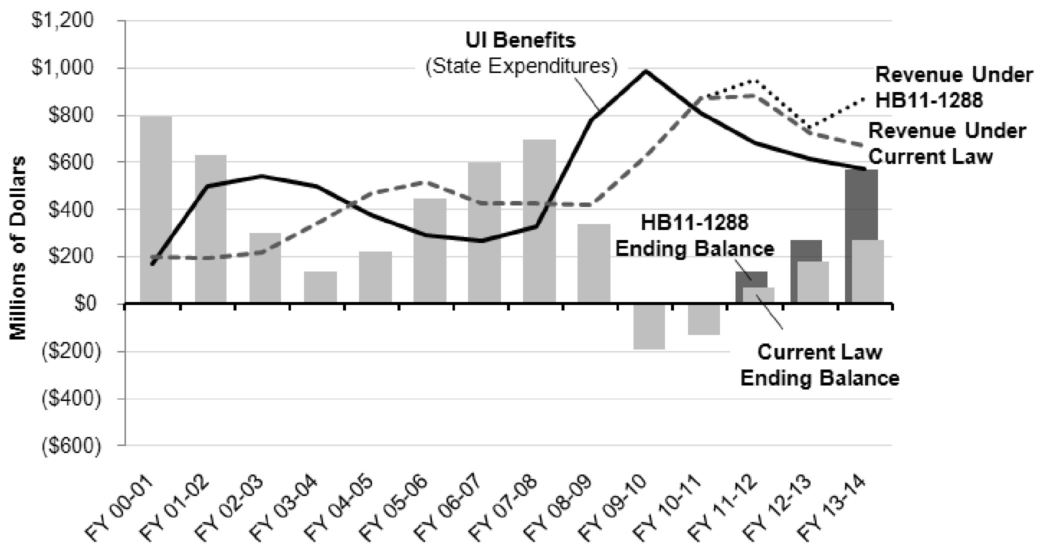
- **Base contribution premium**. Generally varies based on an employer's experience rating (which reflects the employer's layoff history) from 0 to 5.4 percent, it is intended to be the state's primary mechanism to finance unemployment insurance benefits.
- **Socialized surcharge.** Set at 0.22 percent for most employers, it is intended to cover noncharged or ineffectively charged benefits, such as those paid to employees of firms that went out of business without paying sufficient premiums to cover the benefits.
- **Solvency surcharge.** Based on each employer's experience rating, the solvency surcharge increases incrementally each year up to a statutory cap. This surcharge is intended to be a temporary source of revenue. Employers have been paying the solvency surcharge since 2003, when it was triggered "on" by the UI final balance falling below 0.9 percent of total Colorado wages.

State Revenue

This bill is expected to begin increasing state revenue by at least $50 million in FY 2011-12. The fiscal note includes two revenue scenarios, both of which are based on forecasts that use different assumptions as to the amount of benefits to be paid and revenue to be received. If the actual UCF fiscal year-end balance differs from the projections used in the fiscal note, revenue projections will likely differ from actual revenue generated to the UCF because the fund balance determines the assessment rates charged to employers. The majority of the increases are deposited into the UCF. Revenue from assessments is also deposited into the Employment Support Fund and the Employment and Training Technology Fund, but for the purposes of the fiscal note, the effect of the bill on these funds is assumed to be revenue neutral.

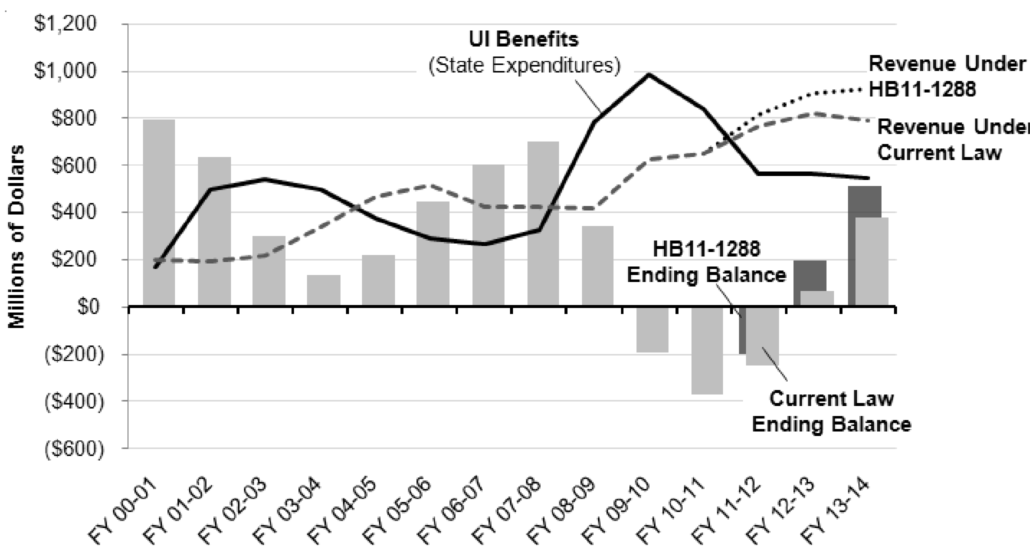
Scenario 1 - $68.0 million in FY 2011-12. The first scenario, based on the March 2011 Legislative Council Staff forecast, shows that the UCF balance will be above zero and all advances from the federal government repaid when the UCF is evaluated June 30, 2012. In this scenario, the changes in the assessments created by the bill, will go into effect January 1, 2013. Under the first scenario, revenue to the UCF is expected to increase by $68,037,000 in FY 2011-12, $27,137,000 in FY 2012-13, and $202,818,000 in FY 2013-14 from changes in the assessments. Figure 1 compares current law with HB 11-1288 in terms of revenue, expenditures for benefits and the ending UCF fund balance by fiscal year under the first scenario.

Figure 1.
Scenario 1. UCF Revenue, Expenditures and Ending Fund Balance Comparison between Current Law and HB 11-1288 using the LCS March 2011 Forecast



Scenario 2 - $53.0 million in FY 2011-12. The second scenario is from the CDLE and it shows that the UCF balance will be above zero and all advances from the federal government repaid June 30, 2013, one year later than the LCS scenario. In this scenario, the changes in assessments will go into effect January 1, 2014. Revenue is expected to increase to the UCF by $53,025,613 in FY 2011-12, $84,050,896 in FY 2012-13 and $134,716,311 in FY 2013-14 from changes in the assessments. Figure 2 compares current law with HB 11-1288 in terms of revenue, expenditures for benefits and the ending UCF fund balance by fiscal year under the second scenario.

Figure 2.
Scenario 2. UCF Revenue, Expenditures and Ending Fund Balance Comparison between Current Law and HB 11-1288 using the CDLE Forecast



State Expenditures

This bill is expected to increase one-time expenditures by $62,900 in FY 2011-12 from the Employment Support Fund. Expenditures are for the 850 hours of computer programming necessary for the new rate tables and compressed experience rates. Funds for the on-line computer access for employers are already appropriated so no increase in expenditures is expected for this provision of the bill.

State Appropriations

For FY 2011-12, the Department of Labor and Employment requires an appropriation of $62,900 from the Employment Support Fund.

Departments Contacted

Labor and Employment Legislative Council Staff